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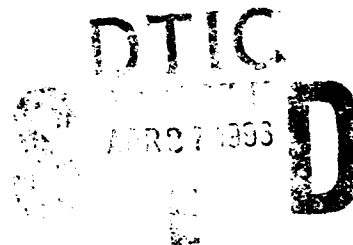
For Release
on Delivery
Expected at
9:30 a.m. EST
Thursday
March 7, 1991

Observations on the Environmental Protection Agency's Budget Request for Fiscal Year 1992

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Before the
Committee on Environment and Public Works
United States Senate

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Mr. Chairman and Members of the Committee:

We appreciate the opportunity to be here today to testify on the Environmental Protection Agency's (EPA) requested budget for fiscal year 1992.

Last year, in our testimony to this Committee on EPA's budget proposal for fiscal year 1991, we outlined a list of environmental problems facing the nation that were not fully addressed by the agency's request for funds. Indeed, for some years, GAO has regularly reported on shortcomings in EPA programs that have often resulted from inadequate funding. Today, in the context of EPA's budget request for the upcoming year, we would like to move beyond this description of unmet needs and share with you GAO's perspectives on how we as a nation might begin to balance national environmental protection goals with budget realities.

Public Expectations vs. Budget Constraints

The fervor with which the nation commemorated the 20th anniversary of Earth Day last year impressed all of us, demonstrating as it did the extent of public commitment to environmental protection. According to a New York Times survey last April, roughly three out of four people polled believed that

protecting the environment is so important that continuing improvements must be made regardless of cost.¹

Yet it is clear that the federal government, at any rate, will be sharply constrained by costs in its abilities to address the nation's environmental needs. According to the Congressional Budget Office, the federal budget deficit will approach \$300 billion in 1991, not including the costs of Operation Desert Storm. Under the terms of the Omnibus Budget Reconciliation Act of 1990, the deficit will be reduced essentially through caps on discretionary spending, which includes EPA funding, until revenue increases with economic growth.

It should come as no news to this Committee, however, that despite a considerable growth in its responsibilities, EPA's budget has been essentially "capped" for over a decade. In constant (1982) dollars, EPA's operating budget, which covers all its programs except for the Superfund cleanup program and construction grants for sewage treatment plants, went from \$1.7 billion in 1979 down to \$1.0 billion in 1983 and rose back up to \$1.7 billion again in 1991.

¹Environmental Issues: National Public Opinion Polls, Congressional Research Service (Washington, D.C.: Aug. 1990.) The survey did not address the question of how much people would actually be willing to pay for added environmental protection.

Yet during this same period, EPA's responsibilities grew enormously. The 1984 amendments to the Resource Conservation and Recovery Act, for example, known as the Hazardous and Solid Waste Amendments, significantly broadened EPA's responsibilities for regulating the generation, transportation, treatment, storage, and disposal of hazardous waste. The amendments also directed EPA to issue regulations for underground storage tanks. In 1986, the Safe Drinking Water Act was amended, requiring EPA to regulate 83 specific drinking water contaminants. In the same year, the Asbestos Hazardous Emergency Response Act was passed, requiring EPA to set standards for responding to the presence of asbestos in school buildings and to study the problem of asbestos in other public buildings. The 1980s also saw significant new responsibilities for EPA under amendments to the Clean Water Act, the Federal Insecticide, Fungicide, and Rodenticide Act, and Superfund legislation (in title III, the Emergency Planning and Community-Right-to-Know Act).

For fiscal year 1992, EPA's operating budget request appears appreciably higher than its budgets in previous years: \$2.5 billion, a 7 percent increase over the 1991 budget. More than 70 percent of this increase, or close to \$117 million, represents additional funds that will go toward implementing the 1990 amendments to the Clean Air Act.

When we look more closely at the entire operating budget, however, it is evident that the gains in the air program are partly made possible by cuts elsewhere--for example, reductions of close to \$50 million in asbestos abatement loans and grants to school districts, and of nearly \$25 million in nonpoint source management grants to states for water pollution control. In fact, the whole notion of gains in the operating budget is illusory because, in constant dollars, the proposed operating budget for FY 1992 is still only \$1.76 billion.

In short, these numbers tell us that despite high public expectations and growing responsibilities, EPA continues to have no more resources to deal with environmental problems than it did 13 years ago. And given the current budget crisis, it is highly unlikely that the agency will have additional resources any time in the foreseeable future.

EPA costs should not be our only concern. Under current environmental statutes, federal, state and local governments as well as industry face considerable compliance costs over the next decade. EPA's recent Cost of Clean report estimates that annual spending on pollution control, almost \$90 billion in 1987, will grow to \$160 billion a year by the year 2000.² While costs to both public and private sectors will grow, the greatest increase in

²Environmental Investments: The Cost of A Clean Environment, Environmental Protection Agency (Washington, D.C.: Nov. 1990.)

shares of total public and private environmental expenditures will be for federal agencies other than EPA: from 4 percent of total expenditures to 8 percent. These costs will largely be borne by the Department of Energy and the Department of Defense, whose hazardous waste cleanup and compliance costs, we have estimated, could total hundreds of billions of dollars.

Need for Renewed Emphasis on Cost-Effectiveness

While efficiency in environmental programs has always been of great concern to us, these anticipated increases in costs, along with the constraints on federal resources, suggest to us the need for a renewed emphasis on cost-effectiveness. In the last couple of years, in GAO reports and testimonies, we have examined various changes to federal policies and programs that could lead to greater efficiencies in meeting environmental protection goals. We also held a symposium in June 1990 to elicit ideas from environmental experts in business, government, and other groups on ways to maximize the return on each dollar spent for environmental protection.

We have synthesized the results of all these reports and the symposium discussions into a single report to the Congress, which we expect to issue within the next couple of months. In the remainder of my testimony, I would like to outline for you the

results of that analysis and our current thinking about actions that might be taken.

In brief, we conclude that several revisions to current policies and program management could better enable the nation to achieve environmental goals with limited resources:

- First, we believe that federal budget priorities should reflect an understanding of relative risks to the environment and public health, and the feasibility and cost-effectiveness of various approaches to reduce these risks. Currently, priorities reflect public perceptions of risk that are not necessarily well-founded.
- We also believe that measuring changes in environmental conditions, rather than levels of agency activities, would provide EPA with a more meaningful indicator of the effectiveness of its environmental protection efforts.
- Looking at the economy as a whole, we think that an environmental control strategy combining traditional regulatory approaches with pollution prevention and market incentives could be less costly to the economy, as well as more effective in controlling pollution.

-- Finally, we believe that the federal government needs to address the financial difficulties that some small communities will face in trying to comply with federal environmental requirements.

Let me address each of these points.

Setting Priorities

Earlier this year, EPA Administrator William Reilly appeared before this Committee to present the results of a review he had asked the Science Advisory Board to undertake of the agency's landmark 1987 study, Unfinished Business. In the 1987 study, a group of senior agency officials concluded that many environmental problems the group considered to be of relatively low risk, such as contamination from hazardous waste sites, were receiving extensive public attention and federal resources, while problems the group judged to be of greater risk, such as indoor air pollution and pesticides, were receiving far less attention and fewer resources. The study's authors then concluded that EPA's funding priorities are more closely aligned with public opinion about health and environmental risks than with scientific assessments. As a result of these findings, the Science Advisory Board recommended that EPA reflect risk-based priorities in both its strategic planning and budgeting processes.

This disparity between risk and priorities, reflecting the gap between scientific and public understanding, also stems from EPA's statutory authority, which is derived from roughly a dozen environmental statutes, each with its own, and often different, philosophies and standards. As a result, EPA has little flexibility to set agencywide priorities on the basis of risk assessment, taking into account also the cost and feasibility of various risk-based approaches, across a spectrum of environmental problems.

Measuring Progress and Program Effectiveness

Our second concern, one we dealt with extensively in our 1988 general management review of EPA,³ has to do with how the agency is managing its responsibilities. In our view, measuring changes in environmental conditions is a necessary part of assessing the effectiveness of programs and deciding how to allocate resources. Instead of looking at these outcomes, however, EPA has generally used activity-based indicators, such as the numbers of regulations issued or enforcement actions taken, as measures of program effectiveness.

Partly because of funding constraints, the agency has not been able to fully monitor environmental conditions and has found

³Environmental Protection Agency: Protecting Human Health and the Environment Through Improved Management (GAO/RCED-88-101, Aug. 16, 1988.)

it difficult to develop indicators of environmental conditions that can be linked to specific program activities. While EPA has begun to develop some indicators--national air quality standards and the national air monitoring system, for example--we believe the agency's efforts merit greater priority than historically they have received.

Using Nonregulatory Approaches to Pollution Control

We are also concerned about improving the efficiency of environmental programs. The traditional approach to pollution control--which requires polluters to adhere to certain performance or technology standards--has helped to control pollution from large stationary sources, such as factories and power plants. I might add here that the extent to which regulations are effective depends heavily on a firm and equitable enforcement effort. This aside, the conventional regulatory approach may still not be the most effective approach for controlling contamination either from these large sources or from numerous small and diffuse sources, such as households.

Selectively supplementing the current system with market-based incentives and pollution prevention strategies could be more effective in controlling these problems and also less costly to the economy as a whole. Market-based incentives, which include pollution taxes or fees and the buying and selling of pollutant

emission "rights," give polluters a financial reason to reduce pollution without imposing specific measures for achieving those reductions. Pollution prevention, which involves eliminating or reducing pollution at its source rather than trying to contain or treat it after it has been generated, has already been successfully adopted by some companies, which have realized cost savings as well.

Addressing Local Financing Needs

Finally, as we indicated in our budget testimony to you last year,⁴ we remain concerned about the ability of many small communities in the United States to pay for future environmental requirements. In recent years, the responsibility for financing environmental projects has been shifting from federal to state and, particularly, local governments. EPA projects that by the year 2000, the costs to local governments of meeting new federal standards for drinking water, solid waste disposal, and wastewater treatment, among others, will increase from \$19 billion a year to over \$32 billion. Some communities of less than 2,500 people may find these new costs especially burdensome, in part because they are less able than larger communities to support expanded financial obligations.

⁴Observations on the Environmental Protection Agency's Budget Request for Fiscal Year 1991 (GAO/T-RCED-90-46, Mar. 7, 1990).

To assist state and local governments, EPA has been examining nonfederal funding mechanisms, such as special taxes and user fees. However, according to a 1989 National Governors' Association study,⁵ such alternative financing mechanisms by themselves will not significantly narrow the gap between the cost of environmental protection and the available resources. EPA recognizes that small localities need greater flexibility in managing their resources and setting their environmental priorities. If the agency also better understood the characteristics of small communities that make it difficult for them to pay, EPA might be better able to target its assistance to those most in need.

FUTURE ACTIONS

We are pleased to note that the President's budget for EPA acknowledges the need to focus resources on programs promising the greatest reduction in environmental risk. But while EPA has begun to address many of the problems we have just reviewed, we believe that the agency has to move beyond these measures to deal more effectively with environmental problems. In our forthcoming report, we expect to make recommendations to EPA and the Congress. In the meantime, we would like to share with you some of our preliminary thoughts on these matters.

⁵Funding Environmental Programs: An Examination of Alternatives, National Governors' Association, (Washington, D.C.: 1989).

For one thing, congressional involvement in setting environmental priorities is essential. While EPA has the ability and, arguably, the responsibility to assess the relative risks posed by environmental problems and to educate the public about them, it nevertheless remains the Congress' responsibility to translate that information into legislation. We would therefore like to see EPA work closely with the Congress to identify opportunities for shifting resources from problems whose risks to human health or the environment are less severe to problems whose risks are greater. Given the importance of public opinion in shaping the Congress' agenda, the public must also be much better informed about the relative seriousness of the nation's environmental problems.

Over the next few years, as a number of major environmental statutes become due for reauthorization, the Congress will also have several opportunities to combine traditional regulatory approaches with market-based systems, much as was done in the Clean Air Act, which incorporated an emissions trading program to control acid rain. This is therefore an opportune time to begin developing ideas and information about ways to combine regulatory with nonregulatory approaches in connection with each of these legislative reauthorizations.

This is also the right time to begin to identify those localities, or types of communities, that are likely to find it

difficult to pay for environmental requirements. This assessment should also consider the expected funding shortfalls and alternative forms of assistance for these communities, including possible legislative or regulatory relief.

Mr. Chairman, this concludes my remarks. I would be pleased to answer any questions.